
A Strategic Partnership Between the Defense Security Cooperation Agency and the Defense Contract Management Agency

**By
The Defense Contract Management Agency
Congressional and Public Affairs Office**

The Defense Security Cooperation Agency (DSCA) and the Defense Contract Management Agency (DCMA) are strategic partners whose cooperation plays an integral role in our nation's relationship with its allies.

"The Defense Security Cooperation Agency reviews and supports all foreign military sales (FMS). DCMA complements this by performing the full spectrum of acquisition contract management (ACM) services in the FMS arena and for the entire life cycle of defense acquisition," Brigadier General Edward M. Harrington, DCMA director, explained.

Foreign military sales is at the foundation of America's national security policy. The legal basis comes from the *Arms Export Arms Control Act of 1976* and the *Foreign Assistance Act of 1961*. These laws were enacted to allow the United States to assist its allies through the sale of military technology, with the approval of the President and Congress.

"Our help in this area ensures the political and military stability of these nations, and the accomplishment of those two goals results in their economic stability as well," said Scott Blank, until recently DCMA chief of International and Federal Business.

That group is responsible for all of the reimbursable effort for DCMA. Reimbursable work comes from the National Aeronautics and Space Administration (NASA) and FMS in partnership with DSCA. It accounts for ten to twelve percent of the agency's \$1 billion annual budget and about 1,200 employees.

The DCMA International and Federal Business Office have a two-fold relationship with DSCA. One group handles the direct commercial sales, or requests coming in from foreign governments doing business directly with U.S. contractors. All of those requests come into a central control point.

For FMS contractual actions, "We review them for content and compliance," Blank said. "And then we coordinate with DSCA and forward them out to the responsible DCMA Contract Management Office (CMO) to perform whatever is requested."

The second part of the relationship involves the Office's financial management team. When a procurement request comes in from a foreign government, a case is developed to describe the buy and to detail the funding arrangements. The team's accountants track and reconcile billings and oversee the financial aspects of the cases.

The team also helps to establish the rates for DCMA services. The rate, called a surcharge, is the amount charged to another federal agency or a foreign government to capture DoD costs of managing their contracts. As of October 1, 2002, the surcharge for performing FMS services is 1.5 percent for work done in the United States and 1.7 percent for work done overseas. The stateside rate breaks down to 0.65 percent for quality assurance, 0.65 percent for other ACM and 0.2 percent for the audit services performed by the Defense Contract Audit Agency.

"The surcharge is just a way to recapture our costs," Blank said. "If we did not charge them, we would be using Department of Defense (DoD) money to support a foreign government."

If the transaction is a direct commercial sale, DCMA may build a case to support the international customer. If it is a foreign military sale embedded in a larger contract, then the military department will build the case.

The F-16 aircraft is a good example of how DCMA recaptures costs because many foreign governments have purchased this aircraft. If the airplanes were actually produced at Lockheed Martin in Dallas/Fort Worth, DCMA personnel at those plants tracked their associated contract management costs and the agency was reimbursed for them. In numerous cases, however, the U.S. government and the foreign nation have mutually decided to transfer some of the technology and produce the F-16 in their own country.

Turkey did this, for example. The company that built the planes was fifty-one percent Turkish-owned, forty-two percent owned by Lockheed Martin (at that time it was General Dynamics) and seven percent owned by General Electric, the company that built the engine. The engine plant in Turkey, again, was fifty-one percent Turkish-owned with forty-two percent owned by General Electric and seven percent owned by Lockheed Martin. All of the workers in the plants were Turkish.

“They did such a great job that when Egypt wanted to buy F-16s, they asked the U.S. government for authorization to get their planes delivered from Turkey, rather than the Dallas/Fort Worth plant,” said Norris J. Nereng, DCMA director of International Contract Operations. “The authority was given to do that, so Egyptian F-16s were built in Turkey.”

Mr. Nereng is a principal leader in DCMA International (DCMAI), one of the agency’s three geographically organized district headquarters. DCMAI has offices in twenty-six countries under five major military combat support commands. An international staff provides ACM for a wide variety of contracts that range from work on the new \$200 billion multi-service, multi-national Joint Strike Fighter with companies such as BAE Systems, headquartered in Wharton, England, to the \$2 billion Balkans Sustainment Contract with Brown and Root Division of Halliburton Co. Between twenty and twenty-five percent of the budget for the International District is funded by DSCA.

Currently, the U.S. government has reciprocity or Host-ACM agreements with seventeen nations, including most members of North Atlantic Treaty Organization (NATO). Essentially, these agreements recognize the capabilities of another nation’s department of defense to perform ACM that is acceptable to the U.S. government.

“Instead of sending DCMA people in there, we can pass the contract on to a host-ACM organization, they will do the contract management for us,” Nereng said. “By the same token, when they buy something in the United States, we do the contract management for them.”

Through Host-ACM agreements, acquisition contract management services are performed without expecting money to be paid between the United States and NATO members. The non-NATO countries, reimburse each other when services are requested.

If the French want to buy a weapons system in the United States, they will send their request through the International and Federal Office. Since France is a NATO ally with a reciprocity agreement, the request will be passed directly through to the DCMA CMO responsible for oversight at the plant that will build the product.

“We develop what we call a ‘No Charge’ case number,” Blank said. “We track the number of hours we are expending in support of our allies just to get a sense of balance. If we buy a system in their country, they would perform the ACM for us. So that it is a true reciprocal relationship, no one country should get a better benefit or a better part of the bargain,” he added.

According to Nereng, several countries will be added to the list of nations for which the U.S. has Host-ACM agreements. “We are working with the Egyptians right now,” he said. “In the not-too-distant future, we are going to see agreements with countries such as Hungary, the Czech Republic and Poland because they have entered into NATO under the Partnership for Peace Program.”

These contracts can get complicated. For instance: Egypt had a fleet of Canadian-built DeHavilland aircraft, purchased from the United States through foreign military sales. The

aircraft were in poor condition and the Egyptians wanted them refurbished. As part of an FMS case, the U.S. government let a contract that was won by a company in Florida. The company, in turn, subcontracted the work to a company in France. DCMA ended up providing contract management oversight to work performed on Egyptian aircraft in France that were originally built in Canada.

“If a foreign government is approved to buy a weapons system from the U.S. government, we typically add it to one of our contract lines with a manufacturer,” Nereng said. “The addition of this Contract Line Item (CLIN) is how they would fund the actual procurement by the foreign government.”

DCMA provides ACM for a wide variety of contracts for many nations. “If a nation without a Host-ACM agreement has a desire to develop this capability, we work with them,” Nereng said.

The nation would submit a request to the DoD for a Host-ACM agreement and it would be sent to DCMA International for processing. “We do a complete evaluation of the country in terms of acceptability and the way they do business,” Nereng said. “Once we have formulated our recommendation, it is forwarded through DSCA for their cost analysis, then to the Office of the Secretary of Defense for final approval and signature.”

Most foreign governments have procurement offices in their Washington, D.C. embassies. “My folks meet with them on a regular basis, depending upon the level of effort supporting that country,” Blank said. “We discuss what we have going on, whether shipments are on schedule and how much effort we currently have in place.”

DCMA is developing a new computer program that will increase the agency’s ability to provide more meaningful reports to its customers and DSCA. Currently, an FMS delegation is tracked only to the point where receipt is acknowledged by the CMO performing the work. Actual production takes place afterward.

“The real meat that the customers are looking for takes place after we receive acknowledgement that our DCMA specialist in the field will be doing the work,” Blank said. “Are there any delays? Did it ship on time? The new program will give us visibility into that.”

The program will be web-based and use existing technology. Blank has shared the progress of these efforts with DSCA and hopes to field the program during fiscal year 2003. The office’s vision is that when one of its staff members posts a new case or request on that site, the functional specialist in the field will get an e-mail prompt. “Click on that and it will have an electronic copy of the delegation, an electronic copy of the purchase order and all the information they need to start work,” Blank said.

“DCMA’s support to FMS is charged to our allies,” Blank said. “Our goal is to streamline our process and lower costs of operation.”

Both Nereng and Blank agree that the relationship between DCMA and DSCA is amicable and vital to our national security. “Our two agencies are really in this together,” Blank said. “The more we can do to communicate with each other and support our mutual processes, the better we can enhance the success of our allies and ensure our national security.”